10/29/87 B5350-2

MANUFACTURERS HANOVER

Financial Digest

Volume XXIV, Number 21 Friday, October 9, 1987

Analysis of Business Trends Plus Selected Financial Indicators

New Developments Down on the Farm

Good news has not been abundant for American farmers during much of this decade, but after years of great financial hardships and many personal tragedies, a sense of optimism is slowly spreading throughout rural America. Declining costs of operations, record government support programs, reduced debt, stable or rising farmland prices, and enhanced exports have eased the financial stress and brightened profit potential for the farm sector.

One of the major factors in the brighter outlook for American agriculture is the decline in farmers' costs of operations. Farmers' cash expenses dropped from the record $116 billion in 1984 to $100 billion in 1986 and are expected to fall an additional $3 billion to $5 billion this year—the first time since the early 1930s that farmers' cash expenses have declined for three consecutive years. The drop in farmers' operating costs comes from three major sources: Lower prices for such manufactured inputs as fertilizers, pesticides and fuels, lower interest costs because of the earlier declines in interest rates and declining farm debt, and finally, a reduction in planted acreage due to wide participation by farmers in government land-idling programs. Lower farm expenses also seem to reflect better managerial decisions—hard-pressed farmers were thriftier in their use of manufactured inputs and hired labor.

In addition to lower costs of production, government programs are playing an increasingly important role in improving the financial position of the farm sector. Farm income is being boosted by various farm subsidy payments which are expected to skyrocket to $16 billion in 1987 from less than $8 billion in 1985. These subsidies will add up to 10 percent to farmers' cash incomes compared with about five percent in 1985.

However, receipts from marketing of farm products are expected to register their second consecutive annual decline this year, totaling somewhere between $136 billion and $138 billion, down from $140 billion in 1986. Most of the decline will come from lower crop receipts—a victim of the bumper harvests of the past few years that produced an oversupply and lowered prices of many farm commodities. Although revenues from livestock—another major farm output—are expected to increase, this gain will not offset the decline in crop receipts.

Record Net Farm Incomes

Nonetheless, the combination of sharply lower expenses and increased government payments will offset lower farm product receipts. The net result: Farmers' net cash incomes—cash generated by the farm business that can be used to service debt, expand the business or pay household expenses—are expected to reach a new record. This year's total should be somewhere between $54 billion and $58 billion, up from the $52 billion posted last year.

The increase in farm cash incomes has had a direct impact on farmers' ability to service debt. After reaching a peak of $204 billion in 1982, total farm debt declined to $176 billion in 1986 and is expected to be reduced by a further $20 billion this year. Part of that reduction is due to write-offs of bad loans carried on the books of commercial banks and the Farm Credit System. Still, record net cash incomes are helping farmers to pay off some of their outstanding debt.

Increased Agricultural Exports

This year is also shaping up better than expected to U.S. agricultural exports. Government export subsidies and a lower dollar have made U.S. farm products more competitive in world markets and, thus, have spurred demand for American agricultural goods. For the first time in three years, farm exports are expected to increase, year over year. The Agriculture Department estimates that the value of U.S. farm exports totaled $28 billion in the fiscal year ended September 30, 1987, up almost 6½ percent from their recent low of $26.3 billion in the previous fiscal year.

These improved prospects for the agricultural sector are stimulating a renewed interest in

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farmland, arresting the long slide in real estate values in the Farm Belt. The value of farmland, which accounts for the bulk of farm assets, and which is the principal basis for farm credit, had been shrinking over the past 15 years. However, recent surveys in many parts of the nation's Farm Belt indicate that land values have stabilized or are slowly moving upward, although prices still vary widely depending on the region and type of land.

Improved income, lower debt and stabilizing asset values have reduced the amount of farm assets at risk. In fact, according to the Department of Agriculture, nearly two out of every five farmers were debt-free at the beginning of 1987 and another 40 percent had debt-to-asset ratios of less than .40 (farms with debt-to-asset ratios of less than .40 and with positive net cash incomes are considered financially stable). However, the remaining 21 percent of all farms were still highly leveraged at the start of 1987.

No Boost For Farm Equipment

But the brighter financial picture for the

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/23/87)	164,543	+ 1,195	+ 8,247
New York City (9/30/87)	36,891	+ 190	+ 3,331
Commercial Paper (9/30/87)	360,198	– 450	+ 33,186

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/23/87)	272,021	+ 1,011	+12,930
New York City (9/30/87)	59,721	+ 1,015	+ 1,500

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/23/87)	801,839	+ 475	+52,203
New York City (9/30/87)	180,223	+ 874	+15,635

Financial Markets

	Friday 10/9/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.96%	+ .12	+ 1.78
180-Day Bills†	7.68	+ .49	+ 2.38
Longest Bills†	8.21	+ .34	+ 2.67
Recent Issues:			
81/2S 9/30/89	8.94	+ .37	
91/8S 9/30/91 (When Issued)	9.48	NA	
85/8S 8/15/97	9.95	+ .38	
87/8S 8/15/17	9.96	+ .28	
Municipals:			
Bond Buyer–20 Bond Index* (10/8/87)	8.66%	+ .13	+ 1.60
Blue List Total ($ Million)	$1,420	– $ 32	– $ 98
30-Day Visible Supply ($ Million)	$2,207	– $120	+ $270
Total	$3,627	– $152	+ $172
Corporates:			
Moody's Aa Composite (10/8/87)	10.73%	+ .24	+ 1.42
30-Day Visible Supply ($ Million)	$2,910	+ $1,705	–$2,885
Stocks:			
Dow-Jones Averages:			
Industrials	2,482.21	– 158.78	+689.04
Transportation	1,036.88	– 27.53	+212.75
Utilities	196.06	– 4.69	– 2.13
65 Stocks	918.65	– 43.90	+204.38
N.Y.S.E. Composite Index	174.64	– 8.79	+ 38.94
N.Y.S.E. Avg. Daily Vol. for Week (000's)	176,045	– 9,343	+53,347

*34% Taxable equivalent 13.12%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/9/87	Week Ago
Overnight	7.44%	7.25%
1 month	7.94	7.56
3 month	8.81	8.25
6 month	9.00	8.44
1 year	9.44	8.94
EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	8.65%	8.65%
Long Term (10 yrs.)	9.42	9.42

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/9/87)	Currency Per U.S. $	Week Ago
Canada	1.3063	1.3058
France	6.0430	6.1325
Germany	1.8145	1.8408
Italy	1309.25	1328.50
Japan	143.95	146.40
Mexico	1611.00	1589.00
Switzerland	1.5078	1.5338
U.K.*	1.6510	1.6229

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (10/9/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	–0.1%	–4.0%

agricultural sector has not translated into a sustained improvement in demand for farm equipment. Although farmers have more cash in their pockets, they have not yet returned to farm machinery lots looking for new equipment. In the January-July period of 1987, unit retail sales of farm equipment continued to slide, with almost all major categories showing declines from last year's already low levels. For example, for the first seven months of 1987, sales of tractors with over 100 horsepower plunged more than 40 percent from last year's levels, while sales of combines dropped more than 30 percent.

Ironically, government farm programs which provide subsidies to farmers who reduce acreage devoted to major crops are clouding the outlook for the farm equipment industry. While these government payments are boosting farmers' incomes, the massive idling of farmland—equivalent to the area of Iowa and Illinois combined—reduces the need for new equipment. As a result, the shrinking sales of the first seven months of 1987 may foreshadow the eighth year of declining sales for the farm equipment industry even as the agricultural sector begins a slow upward return toward prosperity. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/7/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	219.532	– 3.887	+24.489
Loans to Depository Inst.	1.193	– .004	+ .330
Float	.861	+ .373	+ .394
Total Reserve Bank Credit	237.896	– 3.936	+24.994
Treasury Deposits with Federal Reserve Banks	5.341	– 9.014	+ 1.917
Currency in Circulation	217.429	+ .880	+15.833
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	187.437	+ 5.359	+24.483
	10/7/87		
Member Bank Reserves:			
Total Reserves Held	57.262	– .263	+ 5.553
Excess (Deficiency)	.937	+ .419	+ .277
Net Free Reserves	.211	+ .163	– .085

Monetary Aggregates †		% Change Since 3 Months Ago*	% Change Since Year Ago
M1 (9/28/87)	751.5	+ 2.8‡	+ 8.3‡
M2 (August '87)	2,862.7	+ 3.1	+ 5.3
M3 (August '87)	3,606.8	+ 5.2	+ 6.2
Domestic Nonfinancial Debt (2nd Q'87)	7,954.0	+ 8.4	+ 11.0

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 10/9/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.70%	7.31%	7.66%
* Federal Agencies	7.57	7.78	8.20
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.58	8.33	8.94
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.50	8.75	9.00

‡Finance Company Paper—Prime

5- 14 days	7.45%
15- 29 days	7.55
30- 59 days	7.65
60- 89 days	7.77
90-179 days	7.80
180-239 days	7.75
240-270 days	7.75

‡* Bankers' Acceptances

Nov.	7.50%
Dec.	7.70
Jan.	8.30
Feb.	8.30
Mar.	8.30
Apr.	8.30

‡Industrial Paper—Prime

30- 89 days	7.89%
90-120 days	8.30

†Federal Funds Effective Rate 7.60%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'87	$ 4,445	$ 4,378	$ 4,212
Gross National Product (1982 Dollars)*	2nd Q'87	$ 3,795	$ 3,772	$ 3,705
Percent Change, Annual Rate	2nd Q'87	2.5	4.4	0.6
Change in Consumer Prices*	Aug '87	6.0% (1)	2.4% (1)	2.4%
Change in Producer Prices*	Aug '87	0.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons)†	Sep '87n	112,772	113,081	109,987
Unemployment as % of Civilian Labor Force†	Sep '87n	5.9%	6.0%	7.0%
Personal Income*	Aug '87	$ 3,750	$ 3,732	$ 3,553
Leading Indicators Composite Index (1967=100)†	Aug '87n	192.6	191.4r	180.3
Industrial Production Index (1977=100) †	Aug '87	130.7	130.3	125.1
Net Change in Consumer Installment Credit †	Aug '87n	$ 4.66	$ 3.35	$ 5.61
U.S. Merchandise Trade Balance	Jul '87	–$ 16.47	–$ 15.71	–$ 16.05
Plant and Equipment Expenditures*	4th Q'87	$406.37(a)	$398.04(a)	$388.69
Private Housing Starts (Thousands of Units)*	Aug '87	1,582	1,606	1,800
New Construction Expenditures*	Aug '87n	$ 399.6	$ 393.4r	$ 395.3
Total Business Inventories †	Jul '87	$ 676.2	$ 674.8	$ 656.4
Total Business Sales †	Jul '87	$ 451.6	$ 451.7	$ 421.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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